

Ukraine: New Eurobonds issue

Funding 1H19 debt repayments is now likely

TUESDAY, 30 OCTOBER 2018

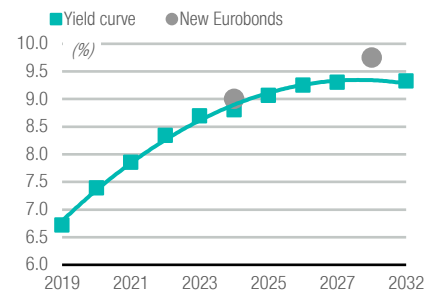
Last week, the Ministry of Finance of Ukraine successfully placed US\$2bn of Eurobonds. As a result, the government should have enough FX funds to repay external debt through May 2019, as we expect the IMF Executive Board to approve the new stand-by agreement with Ukraine this December and IMF-conditioned tranche from the EU and borrowings under the WB guarantee will be received. The yields of the new Eurobonds are slightly higher than the sovereign yield curve, which makes them attractive for investors. Due to political risks, Ukraine's sovereign curve justifiably should remain above those of peers with ratings B/B-, at least until 2020.

New bond placement was successful. Initial guidance was announced at 9.25% for five-year notes and 10% for the 10-years. At the end of the pricing procedures, two Eurobond issues were finally announced: US\$0.75bn at a 9% yield (coupon rate will be 8.994%) maturing in 2024, and US\$1.25bn at a 9.75% yield, maturing in 2028. The issues were oversubscribed with a total of US\$4.9bn of demand despite high political risk given next year's elections, lack of a finalized deal with the IMF, and the currently unfavorable situation for emerging markets. Under such circumstances, we see the cost of new funding as close to fair. The most expensive issue during the last decade was in 2012, when five-year bonds were placed at 9.25% with a spread to the benchmark above 800bp.

External debt repayments are fully funded at least until May. The new Eurobond issue is enough to cover the government's external debt repayments until the end of February. Furthermore, we believe the staff-level agreement with the IMF is sufficient for Ukraine to be authorized to receive the tranche of EUR0.5bn from the EU and US\$0.4bn under the WB guarantee, which will allow the government to repay FX debt at least until May 2019. But the government needs to plan the next new Eurobonds issue no later than 1Q19, in order to repay US\$1bn of US-backed bonds in May and in September—US\$1.1bn (including interest) for Eurobonds issued in 2015 under the debt restructuring (see chart 1). Overall, we anticipate US\$3bn of new Eurobonds will be needed next year.

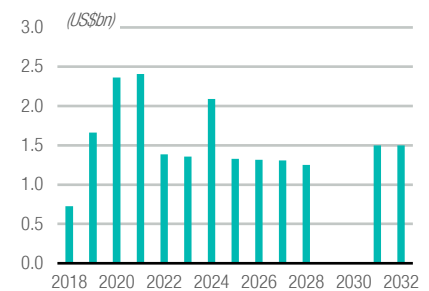
Trading above yield curve makes new bonds attractive. At issuance, the new 2024s were priced at a 602bp spread to the benchmark or 25bp above the sovereign yield curve. This is the usual new-issue premium required by the market and added to the yield curve. In turn, the new 2028s' spread was 616bp, about 40bp above the yield curve (see chart 2). We assume that the spread between the new bond yields and the sovereign curve will eventually tighten to zero. Overall, the level of sovereign risk remains high due to political uncertainty given the upcoming elections, and the ongoing military conflict. So, new issues in 2019 are unlikely to be cheaper for the government. The sovereign yield curve is justifiably above most peers that have a B/B- credit rating (see chart 3). But the curve can shift down at the end of 2019 or at the beginning of 2020 when political situation in Ukraine stabilizes after the presidential and parliamentary elections.

Ukraine's sovereign Eurobonds yield curve at 25-Oct-18 and new Eurobonds



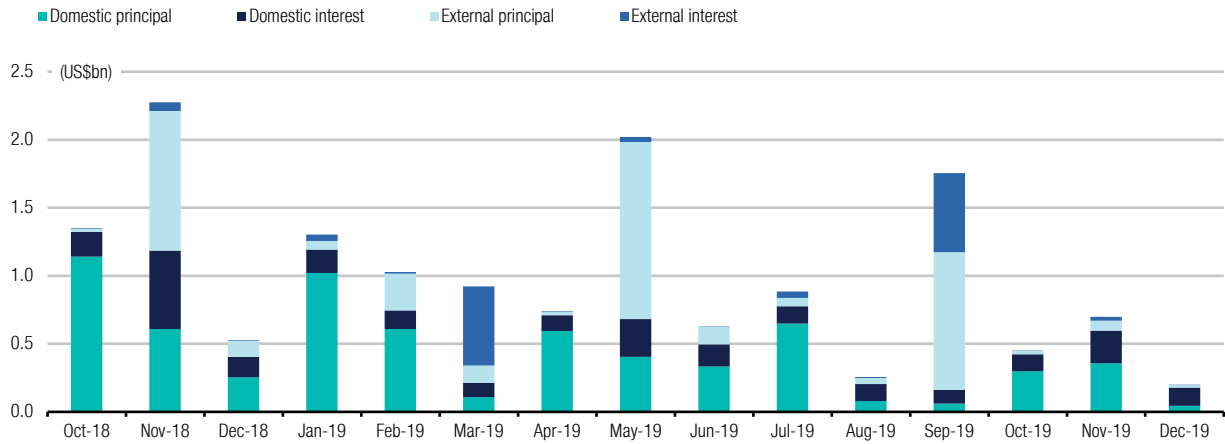
Джерело: Bloomberg, ICU.

Ukraine's Eurobonds maturity profile.



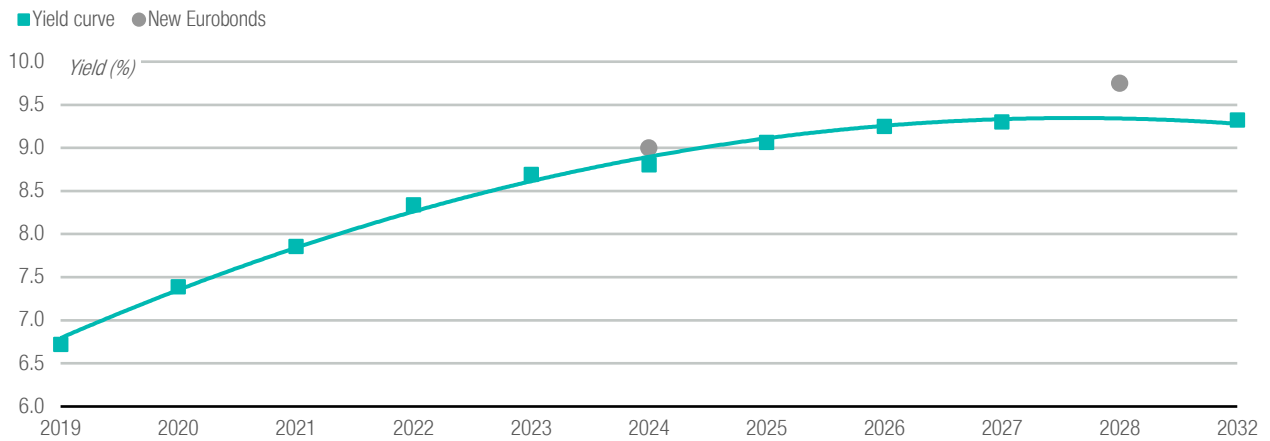
Джерело: Bloomberg, ICU.

Chart 1. Schedule of sovereign debt repayments 4Q18-2019 (US\$bn)



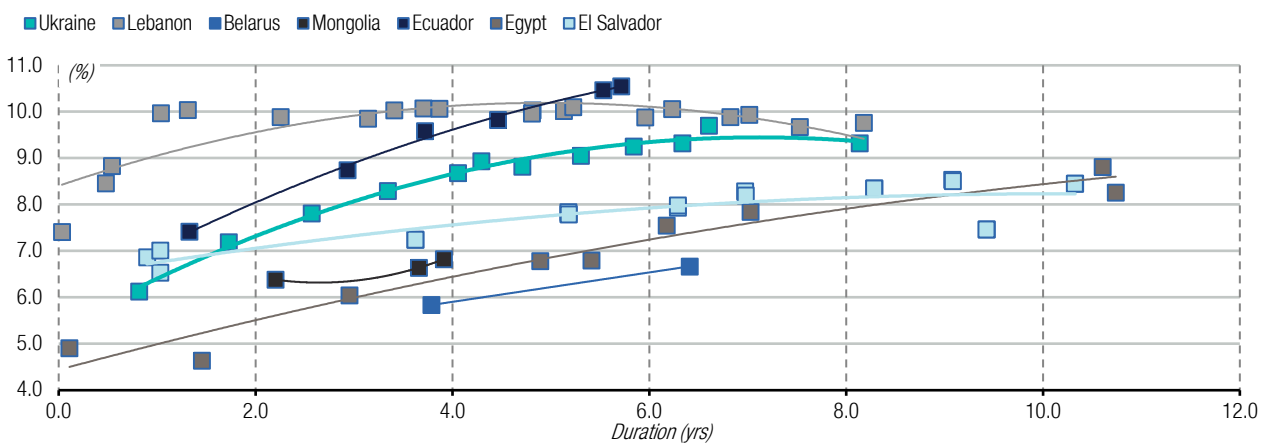
Sources: Ministry of Finance of Ukraine, Bloomberg, ICU

Chart 2. Ukraine's sovereign Eurobonds yield curve at 25-Oct-18 and new Eurobonds



Sources: Bloomberg, ICU

Chart 3. Sovereign yield curves of B/B- countries and Ukraine (29-Oct-18)



Sources: Bloomberg, ICU



11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



INVESTMENT ADVISORY

Makar Paseniuk, CFA, Managing Partner
makar.paseniuk@icu.ua

Ivan Shvydanenko, Director
ivan.shvydanenko@icu.ua

Roman Nikitov, ACCA Director
roman.nikitov@icu.ua

Yuriy Kamarytskyi, Vice President
yuriy.kamarytskyi@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

Ruslan Patlavsky, Director
ruslan.patlavsky@icu.ua

ASSET MANAGEMENT

Grigoriy Ovcharenko, Director
Head of Local Asset Management
grigoriy.ovcharenko@icu.ua

Liliya Kubytovych
Head of Marketing and Sales
liliya.kubytovych@icu.ua

TRADE OPERATIONS

Konstantin Stetsenko
Managing Partner
konstantin.stetsenko@icu.ua

Vlad Sinani, Director
Strategy and Business Development
vlad.sinani@icu.ua

Sergiy Byelyayev
Head of Fixed-Income Trading
sergiy.byelyayev@icu.ua

Yevgeniya Gryshchenko
Head of Brokerage Services Department
yevgeniya.gryshchenko@icu.ua

Vitaliy Sivach
Trader, Fixed-Income & Forex
vitaliy.sivach@icu.ua

Bogdan Vorotilin
bogdan.vorotilin@icu.ua

RESEARCH

Alexander Valchyshen
Head of Research
alexander.valchyshen@icu.ua

Taras Kotovych
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Dmitriy Dyachenko
Junior financial analyst
dmitriy.dyachenko@icu.ua

Artem Gladchenko
Junior financial analyst
artem.gladchenko@icu.ua

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

